Notes to Core Financial Statements

1. Transition to IFRS

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10. The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

Short-term accumulating compensated absences

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay. Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the Council is required to accrue for any annual leave earned but not take at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used. Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet	2009/10 Statements £000	Adjustments Made £000
Provisions	-	(4,797)
Accumulated Absences Account	-	4,797

31 March 2010 Balance Sheet	2009/10 Statements £000	Adjustments Made £000
Provisions	(6,450)	(1,653)
Accumulated Absences Account	6,450	1,653

2009/10 Comprehensive Income & Expenditure Statement	2009/10 Statements £000	Adjustments Made £000
Central Services	-	255
Cultural, Environmental, Regulatory & Planning Services	-	486
Education & Children's Services	-	668
Adult Social Care	-	244

Government Grants

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31 March 2009 of £248.6m has been transferred to the Capital Adjustment Account in the opening 1 April 2009 balance sheet.
- Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.
- Where a grant was received in 2009/10 but not used, previously no income was recognised in respect of this grant, which was shown in the Grants Unapplied Account within the liabilities section of the balance sheet. Following the change in accounting policy, the grant has been recognised in full, and transferred to the Capital Grants Unapplied Account within the reserves section of the balance sheet.

This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet	**2009/10 Statements £000**	**Adjustments Made £000**	**2009/10 Adjusted £000**
Government Grants Deferred Account	(248,589)	248,589	-
Capital Grants Receipts in Advance	(21,213)	9,122	(12,091)
Capital Grants Unapplied Account	-	(9,122)	(9,122)
Capital Adjustment Account	-	(248,589)	-

31 March 2010 Balance Sheet	**2009/10 Statement £000**	**Adjustments Made £000**	**2009/10 Adjusted £000**
Government Grants Deferred Account	(291,136)	291,136	-
Capital Grants Receipts in Advance	(40,715)	26,778	(13,937)
Capital Grants Unapplied Account	-	(26,778)	(26,778)
Capital Adjustment Account	(558,476)	(291,136)	(849,612)

2009/10 Comprehensive Income and Expenditure Statement	**2009/10 Statement £000**	**Adjustments Made £000**	**2009/10 Adjusted £000**
Cost of Services (net):			
Education and Children's Services	115,677	1,065	116,742
Housing Services General Fund	11,028	2,686	13,714
Taxation and Non Specific Grant Income	(291,779)	(84,103)	(375,882)

Fixed Assets

Under the Code, properties can only be classified as investment property if they meet the strict criteria of investment property, that is that they are only being held for capital appreciation or rental income purposes. Also, assets held for sale can only be classified as such if they are being actively marketed and a sale imminent. As a consequence the following adjustments have been made to the 01 April 2009 and the 01 April 2010 balance sheets:

Opening 1 April 2009 Balance Sheet	2009/10 Statements £000	Adjustments Made £000	2009/10 Adjusted £000
Property, Plant and Equipment	1,985,862	27,896	2,013,758
Investment Property	166,537	(60,357)	106,180
Assets Held for Sale	-	2,778	2,778

31 March 2010 Balance Sheet	2009/10 Statement £000	Adjustments Made £000	2009/10 Adjusted £000
Property, Plant and Equipment	2,024,875	23,906	2,048,781
Investment Property	236,948	(62,467)	174,481
Assets Held for Sale	-	1,335	1,335
Capital Adjustment Account	-	(5,355)	-
Revaluation Reserve	-	42,581	-

2. Accounting Standards that have been issued but have not yet been adopted

Heritage Assets - impact of the adoption of the new standard on the 2011/12 financial statements

The Code has introduced a change in accounting policy in relation to the treatment of heritage assets which will impact on the treatment of those heritage assets managed and held by the Council. These changes will need to be adopted fully by the Joint Committee in the 2011/12 financial statements.

Although full adoption of the standard is not required until the preparation of 2011/12 financial statements, the Council is required to make disclosure of the estimated effect of the new standard in the 2010/11 financial statements. The new standard will require that a new class of asset, heritage assets, is disclosed separately in the Council's Balance Sheet in the 2011/12 financial statements.

Heritage assets are assets that are held and managed by the Council 'principally for their contribution to knowledge or culture'. The heritage assets held and managed by the Council are:

- Heritage assets held by Tyne & Wear Museums & Archives on behalf of the five Tyne & Wear Authorities.
- Civic Insignia.
- Heritage assets included in the Mansion House.
- Public Art within the City.

Tyne & Wear Museums & Archives

Heritage assets are assets that are held and managed by the Joint Committee 'principally for their contribution to knowledge or culture'. The heritage assets held and managed by the Joint Committee are the collections of assets and artefacts either exhibited or stored in:

- Shipley Art Gallery (founded 1915)
- Discovery Museum (founded 1934)
- Tyne and Wear Archives (based at Discovery Museum, est. 1974)
- Great North Museum: Hancock (founded 1829)
- Great North Museum: Resource Centre (based at Discovery Museum, est. 2009)
- Hatton Gallery: Great North Museum (founded 1926)
- Laing Art Gallery (founded 1901)
- Segedunum Roman Fort, Baths & Museum (founded 2000)
- Stephenson Railway Museum (founded 1986)
- Arbeia Roman Fort & Museum (founded 1953)
- South Shields Museum & Art Gallery (founded 1876)
- Monkwearmouth Station Museum (founded 1973)
- Sunderland Museum & Winter Gardens (founded 1846)
- Washington F Pit (founded 1976)
- Regional Museums Store and Regional Resource Centre (in partnership with and based at Beamish Open Air Museum (est. 2002))

The collections held by the Joint Committee are diverse, covering six principal fields. The collection ranges in medium and materials, and includes objects, specimens, documents, digital media and film. The total collection size is estimated at 1m museum objects and approximately 1,562 cubic meters of archive material. It reflects a period of collecting of over 200 years by the archives, museums and their predecessor bodies. The definition of numbers in the collection follows museum and archive best practice but, in terms of valuing the asset, is fairly arbitrary as single items accessioned may comprise a wide range of objects, artefacts, components or supporting papers. However, the following table indicates the estimated number of objects/records held within each field:

Category	Estimated no. of objects/records as at 31 March 2011
Art (including fine art, decorative art, contemporary craft and design)	41,492
Archaeology	226,170
Ethnography	7,105
History (including social history, costume, maritime history and engineering, science and industry)	190,165
Natural Sciences (including geology and biology)	640,793
Total	**1,105,725**
	Cubic Meters
Archives	1,562

The collection is not currently recognised in the financial statements as no reliable information is available on the summative cost or the value of the assets. This is due to a number of factors, not all of which will apply consistently to the different fields, but

includes: the lack of information on purchase cost; the lack of comparable market values; the diverse nature of the objects; and the volume of objects held. The assets are held in the asset register of the Joint Committee, currently MODES database software, but in the process of migrating to KE EMu collections management system.

The Code will require that heritage assets are measured at valuation in the 2011/12 financial statements (including the 2010/11 comparative information). The 2011/12 Code where it relates to heritage assets will permit some relaxations of the normal valuation requirements of heritage assets and this will mean that the Joint Committee is able to recognise more of its collections of heritage assets in the balance sheet.

The Joint Committee anticipates that it will be able to recognise its art collection on the balance sheet using as its base the detailed insurance valuations (based on market values) held by the Joint Committee in respect of much of this collection. The Joint Committee is unlikely to be able to recognise the majority of the other collections in future financial statements as it is of the view that conventional valuation approaches lack sufficient reliability and obtaining any valuations for the vast majority of these collections would likely incur a significant and onerous cost. Even if valuations could be obtained it would involve a disproportionate cost not commensurate with any benefits to the Joint Committee, its senior management, curatorial staff, the public or to the users of the Joint Committee's financial statements - this exemption is permitted by the 2011/12 Code.

Only items in the collection estimated to be worth in excess of £10k are identified separately for insurance purposes. The Joint Committee estimates, from its insurance records, that the value of those items within the art collection worth in excess of £10k is £124.1m as at 1 April 2010. Therefore, it is estimated that the total value of heritage assets to be recognised in the Balance Sheet at 1 April 2010 (under the requirements of the 2011/12 Code) will be £124.1m. As these assets have not yet been recognised in the Balance Sheet this will require a corresponding increase in the Revaluation Reserve of £124.1m, i.e. a revaluation gain.

The Joint Committee considers that the heritage assets held by the Joint Committee will have indeterminate lives and a high residual value; hence the Joint Committee does not consider it appropriate to charge depreciation for the assets. There will therefore be no change to the depreciation charged in the financial statements in relation to the Joint Committee's heritage assets.

The following table sets out the movements of heritage assets in the year to provide users of the financial statements with a fuller understanding of the impact of the new standard on the balance sheet in 2010/11 financial year and provides a split between the owners of the assets.

District	Estimated number of art objects valued at £10k or above as at 1 April 2010	Heritage Assets recognised for the first time at valuation as at 1 April 2010	Additions 2010/11 (purchase of painting)	Carrying Value as at 31 Mar 2011
Gateshead	148	£13.12m	£0.00m	£13.12m
Newcastle	699	£101.32m	£0.04m	£101.37m
North Tyneside	0	£0.00m	£0.00m	£0.00m
South Tyneside	13	£0.49m	£0.00m	£0.49m
Sunderland	133	£9.13m	£0.00m	£9.13m
Total	**993**	**£124.06m**	**£0.04m**	**£124.11m**

Civic Insignia

The Civic Insignia include the following:

- Lord Mayors Chain
- Lady Mayoress Chain
- Sheriffs Chain
- Consort Medallion
- Great Mace
- Swords Of State
- Silver Gallery - a permanent display of Civic Plate and regalia is housed in the Lord Mayor's Silver Gallery at the Civic Centre together with some of the gifts made to the City.

This collection is currently not recognised within the financial statements. The Code will require that Heritage assets are measured at valuation in the 2011/12 financial statements. The Council anticipates that it will be able to recognise its Civic Insignia on the Balance Sheet using as its base the detailed insurance valuation, with a corresponding revaluation gain. The current insurance valuation for the Civic Insignia is £0.7m.

Heritage assets included in the Mansion House

This collection includes all furnishings and works of art and other artefacts within the Mansion House. This collection is currently not recognised within the financial statements.

The Code will require that Heritage assets are measured at valuation in the 2011/12 financial statements. The Council anticipates that it will be able to recognise its assets within the Mansion House on the Balance Sheet using as its base the detailed insurance valuation with a corresponding revaluation gain. The current insurance valuation for these items is £1.2m.

Public Art within the City

Public art is used by the Council to create and revitalise public spaces, to improve the environment and to enhance new developments. It is also an important and creative community development tool and is used to engage local people in shaping and defining

their own communities and to enhance teaching in a range of subjects across the curriculum.

Newcastle has a wealth of public art. Some pieces, like Blue Carpet are well known, but others are not. Much of the work that the Council does in the field of public art is intended to increase public awareness of the importance of good design; the value of a welcoming, distinctive environment; and the many examples of exemplary work that exist in the City.

The Council is unlikely to be able to recognise these works of art in future financial statements as it is of the view that obtaining valuations for the vast majority of these works of art would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements - this exemption is permitted by the 2011/12 Code.

The Council considers that the heritage assets held by the Council will have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation for the assets. There will therefore be no change to the depreciation charged in the financial statements in relation to the authority's heritage assets.

The movements of Heritage assets for the Council in the 2010/11 accounts are set out in the table below:

	£000
Heritage assets recognised for the first time at valuation as at 1 April 2010	103,205
Additions	40
Carrying value as at the 31 March 2011	**103,245**

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in note 44 Accounting Policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are considered to be:

- Determining whether an arrangement meets the definition of a service concession within the scope of IFRIC (International Financial Reporting Interpretations Committee)12.
- Determining whether a substantial transfer of risks and rewards has occurred in relation to leased assets.
- Determining whether the Council has to produce group accounts.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £96.1m. However, the assumptions interact in complex ways. During 2010/11, the Council's actuaries advised that the net pensions liability had decreased by £9.6m as a result of estimates being corrected as a result of experience and decreased by £2.7m attributable to the updating of the assumptions.
Arrears	At 31 March 2011, the Council had a balance of sundry debtors for £86.6m. A review of significant balances suggested that an impairment of doubtful debts of £19.9m was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £19.9m to set aside as an allowance.

5. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2010/11	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>						
Charges for depreciation and impairment of non current assets	(99,371)	(358,297)	-	-	-	457,668
Revaluation losses on Property Plant and Equipment	633	197	-	-	-	(830)
Movements in the market value of Investment Properties	(9,867)	-	-	-	-	9,867
Amortisation of intangible assets	(1,043)	(21)	-	-	-	1,064
Capital grants and contributions applied	48,965	-	-	-		(48,965)
Revenue expenditure funded from capital under statute	(34,459)	(1,095)	-	-	-	35,554
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(25,765)		-	-	-	25,765
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>						
Statutory provision for the financing of capital investment	20,761	3,031	-	-	-	(23,792)
Capital expenditure charged against the General Fund and HRA balances	-	3,841	-	-	-	(3,841)
Adjustments involving the Capital Grants Unapplied Account:						
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	20,189	(20,189)

2010/11 continued

	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,832	3,023	-	(4,855)	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	2,488	-	(2,488)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	(149)	-	-	149	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(1,674)	-	-	1,674	-	-
Transfer from Deferred Capital Receipts Reserve	(27)	-	-	-	-	27
Adjustment involving the Major Repairs Reserve:						
Use of the Major Repairs Reserve to finance new capital expenditure	-	25,332	-	-	-	(25,332)
Adjustments involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	266	-	-	-	-	(266)
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 40)	102,340	-	-	-	-	(102,340)
Employer's pensions contributions and direct payments to pensioners payable in the year	44,260	-	-	-	-	(44,260)

2010/11 continued

	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(32)	-	-	-	-	32
Adjustment involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	155	-	-	-	-	(155)
Total Adjustments 2010/11	**46,825**	**(323,989)**	**-**	**(544)**	**20,189**	**257,519**

2009/10	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non current assets	(103,920)	(90,455)	-	-	-	194,375
Revaluation losses on Property Plant and Equipment	2,771	-	-	-	-	(2,771)
Movements in the market value of Investment Properties	9,221	-	-	-	-	(9,221)
Amortisation of intangible assets	(1,080)	(21)	-	-	-	1,101
Capital grants and contributions applied	73,379	-	-	-		(73,379)
Revenue expenditure funded from capital under statute	(25,909)	-	-	-	-	25,909
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(9,914)	(3,653)	-	-	-	13,567
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	23,095	1,527	-	-	-	(24,622)
Capital expenditure charged against the General Fund and HRA balances	12,484	8,540	-	-	-	(21,024)
Adjustments involving the Capital Grants Unapplied Account:						
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	4,997	(4,997)

2009/10 continued

	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	12,358	-	-	(12,358)	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	11,171	-	(11,171)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	(149)	-	-	149	-	
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(1,367)	-	-	1,367	-	-
Transfer from Deferred Capital Receipts Reserve	(867)	-	-	-	-	867
Adjustment involving the Major Repairs Reserve:						
Use of the Major Repairs Reserve to finance new capital expenditure	-	17,850		-	-	(17,850)
Adjustments involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	381	-	-	-	-	(381)
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 40)	(59,980)	-	-	-	-	59,980
Employer's pensions contributions and direct payments to pensioners payable in the year	46,580	-	-	-	-	(46,580)

2009/10 continued

	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	234	-	-	-	-	(234)
Adjustment involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,653)	-	-	-	-	1,653
Total Adjustments 2009/10	**(24,336)**	**(66,212)**	**-**	**329**	**4,997**	**85,222**

6. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2010/11.

	Balance at 1 April 2009	Transfers Out 2009/10	Transfers In 2009/10	Balance at 31 March 2010	Transfers Out 2010/11	Transfers In 2010/11	Balance at 31 March 2011
	£000	£000	£000	£000	£000	£000	£000
General Fund							
Balances held by schools under a scheme of delegation	(9,762)	-	(576)	(10,338)	535	(2,824)	(12,627)
General Fund reserve	(10,135)	-	-	(10,135)	-	-	(10,135)
Corporate resource pool	(8,989)	18,491	(12,013)	(2,511)	9,121	(6,720)	(110)
Other capital reserves	(1,218)	616	(842)	(1,444)	426	(575)	(1,593)
Insurance & risk management reserve	(3,177)	1,703	(313)	(1,787)	1,225	-	(562)
Urban Development Corporation reserve	(1,204)	238	-	(966)	88	-	(878)
Strategic reserve	(15,408)	8,605	-	(6,803)	9,052	(23,848)	(21,599)
Cash limits	(3,286)	-	(151)	(3,437)	3,691	(1,294)	(1,040)
Trading accounts	(6,942)	4,263	-	(2,679)	1,754	(379)	(1,304)
Other revenue reserves *	(22,754)	4,880	(2,004)	(19,878)	2,571	(3,023)	(20,330)
Grants & contributions unapplied	(11,430)	7,305	(27,824)	(31,949)	20,189	(4,742)	(16,502)
Usable capital receipts reserve	(977)	12,687	(12,358)	(648)	368	(911)	(1,191)
	(95,282)	58,788	(56,081)	(92,575)	49,020	(44,316)	(87,871)
HRA							
HRA surplus	(9,876)	11,000	(10,608)	(9,484)	7,400	(8,959)	(11,043)
Furniture investment reserve	(2,000)	1,046	(1,424)	(2,378)	141	(933)	(3,170)
Decent Homes programme reserve	-	5,000	(9,400)	(4,400)	2,000	(9,200)	(11,600)
Capital programme reserve	-	1,606	(4,000)	(2,394)	1,444	(1,100)	(2,050)
Renewals fund	(555)	192	(83)	(446)	35	(75)	(486)
Pensions reserve	(1,000)	1,000	-	-	-	-	-
Workforce planning reserve	(3,000)	-	-	(3,000)	2,300	-	(700)
Concierge projects	-	-	-	-	-	(2,500)	(2,500)
Revenue projects	-	-	-	-	-	(1,000)	(1,000)
Demolitions projects	-	-	-	-	-	(2,500)	(2,500)
Repairs fund	(3,000)	-	-	(3,000)	2,000	-	(1,000)
Investment reserve	(8,377)	2,153	-	(6,224)	6,224	-	-
Major repairs reserve	(20,308)	17,850	(19,572)	(22,030)	25,331	(19,811)	(16,510)
	(48,116)	39,847	(45,087)	(53,356)	46,875	(46,078)	(52,559)
Totals	**(143,398)**	**98,635**	**(101,168)**	**(145,931)**	**95,895**	**(90,394)**	**(140,430)**

* Other Revenue Reserves includes the PFI (Private Finance Initiative Subsidy) reserves £14.5m, earmarked excluded items £3.9m, LPSA Performance Reward £1.2m and other miscellaneous reserves £0.7m.

7. Other Operating Expenditure

2009/10 £000		2010/11 £000
80	Parish council precepts	52
17,834	Levies	18,139
1,367	Payments to the Government Housing Capital Receipts Pool	1,674
2,880	Losses on the disposal of non current assets	21,234
22,161	Total	**41,099**

8. Financing and Investment Income and Expenditure

2009/10 £000		2010/11 £000
53,008	Interest payable and similar charges	55,804
35,650	Pensions interest cost and expected return on pensions	8,180
(5,410)	Interest receivable and similar income	(3,718)
(14,748)	Income and expenditure in relation to investment properties and changes in their fair value	5,422
(20,893)	External trading accounts	3,331
47,607	**Total**	**69,019**

External trading accounts are shown as a negative balance in 2009/10 due to the reversal of the Eldon Square impairment charge.

9. Taxation and Non Specific Grant Income

2009/10 £000		2010/11 £000
(102,081)	Council tax income	(103,471)
(133,666)	Non domestic rates	(145,787)
(56,032)	Non-ringfenced government grants	(59,319)
(84,103)	Capital grants and contributions	(40,169)
(375,882)	**Total**	**(348,746)**

10. Property, Plant & Equipment
Movements in 2010/11

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Land Awaiting Development	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation										
At 1 April 2010	1,118,732	689,493	124,615	276,994	3,074	14,600	9,910	16,312	2,253,730	192,820
Additions	76,856	32,009	12,744	14,467	714	965	5,718	4,925	148,398	205.00
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(86,371)	(6,333)	4,389	-	9	(406)	-	-	(88,712)	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(268,016)	(61,232)	(600)	(51)	(3)	(1,231)	(516)	(2,152)	(333,801)	-
Derecognition - Disposals	(1,451)	(22,296)	(29,779)	-	-	(538)	-	-	(54,064)	-
Assets reclassified (to)/from Held for Sale	-	(262)	-	-	-	892	-	-	630	-
Other reclassifications	-	(89,917)	96,586	4,186	-	1,173	(1,324)	(10,704)	-	-
At 31 March 2011	**839,750**	**541,462**	**207,955**	**295,596**	**3,794**	**15,455**	**13,788**	**8,381**	**1,926,181**	**193,025**
Accumulated Depreciation and Impairment										
At 1 April 2010	(72,825)	(19,373)	(69,906)	(42,521)	(152)	(71)	(101)	-	(204,949)	(14,188)
Depreciation charge	(19,811)	(7,212)	(22,376)	(7,119)	(31)	(54)	-	-	(56,603)	-
Depreciation written out to the Revaluation Reserve	11,916	1,330	-	-	-	31	-	-	13,277	-
Depreciation written out to the Surplus/Deficit on the Provision of Services	8,644	4,178	-	-	-	-	-	-	12,822	-
Impairment losses/(reversals) recognised in the Revaluation Reserve	52,207	2,705	-	-	-	-	-	-	54,912	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(74,463)	(3,585)	-	-	-	(85)	(1,839)	(114)	(80,086)	-
Derecognition - Disposals	52	368	28,743	-	-	-	-		29,163	
Reclassifications	-	2,958	(2,958)	-	-	-	-		-	
At 31 March 2011	**(94,280)**	**(18,631)**	**(66,497)**	**(49,640)**	**(183)**	**(179)**	**(1,940)**	**(114)**	**(231,464)**	**(14,188)**
Net Book Value										
At 31 March 2011	**745,470**	**522,831**	**141,458**	**245,956**	**3,611**	**15,276**	**11,848**	**8,267**	**1,694,717**	**178,837**
At 31 March 2010	**1,045,907**	**670,120**	**54,709**	**234,473**	**2,922**	**14,529**	**9,809**	**16,312**	**2,048,781**	**178,632**

Comparative Movements in 2009/10

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Land Awaiting Development £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation										
At 1 April 2009	1,030,954	694,095	108,090	263,651	8,833	15,073	13,803	12,244	2,146,743	242,868
Additions	106,545	37,338	16,627	13,411	825	358	1,014	9,124	185,242	215
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(2,773)	51,239	-	-	(509)	1,679	531	-	50,167	491
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(12,251)	(95,845)	(57)	(53)	(484)	486	(6,924)	(68)	(115,196)	(50,754)
Derecognition - Disposals	(3,653)	(6,229)	(281)	-	-	(2,825)	(37)	-	(13,025)	-
Assets reclassified (to)/from Held for Sale	(151)	(50)	-	-	-	-	-	-	(201)	-
Other reclassifications	61	8,945	236	(15)	(5,591)	(171)	1,523	(4,988)	-	-
At 31 March 2010	**1,118,732**	**689,493**	**124,615**	**276,994**	**3,074**	**14,600**	**9,910**	**16,312**	**2,253,730**	**192,820**
Accumulated Depreciation and Impairment										
At 1 April 2009	(21,786)	(17,530)	(56,185)	(37,098)	(183)	(203)	-	-	(132,985)	(8,378)
Depreciation charge	(20,616)	(10,247)	(13,837)	(5,427)	(35)	(74)		-	(50,236)	(5,810)
Depreciation written out to the Revaluation Reserve	21,154	6,276	-	-	-	-	-	-	27,430	-
Depreciation written out to the Surplus/Deficit on the Provision of Services	632	5,044	-	-	-	-	221	-	5,897	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(52,207)	(3,886)	-	-	-	-	(101)	-	(56,194)	-
Derecognition - Disposals	-	793	140	-	-	206	-	-	1,139	-
Reclassifications	(2)	177	(24)	4	66	-	(221)	-	-	-
At 31 March 2010	**(72,825)**	**(19,373)**	**(69,906)**	**(42,521)**	**(152)**	**(71)**	**(101)**	**-**	**(204,949)**	**(14,188)**

Depreciation:

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings 50 years
- Other Land and Buildings 25-50 years
- Vehicles, Plant, Furniture & Equipment 3-10 years
- Infrastructure 25-60 years

Capital Commitments:

At 31 March 2011, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/12 and future years budgeted to cost £48m. Similar commitments at 31 March 2010 were £79m. The major commitments (£1m or more) are:

Housing Revenue Account Programme	
	£m
Frank Haslam Milan	7,875
Electrical services	7,619
Kendal Cross	4,202
Mears	2,118
Straightline	1,893
Turney Wylde	1,635
	25,342
General Fund Programme	
Scotswood	10,710
Theatre Royal	4,874
Toffee Factory	3,717
Milecastle Primary	2,634
Trinity School	1,107
	23,042
Total Commitments	**48,384**

Valuation Policies

Assets are carried on the Council's balance sheet based upon the Code of Practice and guidance notes issued by the Royal Institution of Chartered Surveyors (RICS).

- Properties classified as operational were valued on the basis of net realisable value in existing use or, where this could not be assessed because there was no market for the subject asset, on the basis of depreciated replacement cost.
- Vehicles, plant, furniture and equipment - non-property assets (furniture and equipment) are included at historical cost net of depreciation. Plant and machinery is included in the valuation of the buildings where it is considered to form part of the building service installation.
- Council dwellings were valued on the basis of existing use for social housing. This value is calculated by adjusting the existing use value with vacant possession by a regional factor provided by the Department for Communities and Local Government to reflect their status as social housing. Consequently council dwellings are included in the balance sheet at 51% of current value.
- Properties classified as non-operational have been valued on the basis of market value.
- Community assets are recorded at historical cost, depreciated where appropriate. Community assets can include parks, historic buildings and museum exhibits/collections.
- Infrastructure assets are included at historical cost, net of depreciation. It should be noted that where a capital scheme includes some infrastructure works (such as the building of roads and sewers in the construction of a housing estate) these have usually been included in the category "council dwellings" or "other land and buildings" as appropriate. It is not always possible to identify the full cost separately.
- It is a requirement that assets carried at current value are reviewed at periods of not more than 5 years, and when circumstances occur that materially change the valuations. The process of review is a 5 year rolling programme and accordingly at least 20% of the property asset register was valued during 2010/11. Assets have been valued in accordance with the principles of the RICS Appraisal and Valuation Standards. The valuations were supervised by M. Lloyd, RICS, Head of Strategic Asset Management, Newcastle City Council.

The table below summarises when assets were most recently valued and shows the progress of the Council's 5 year rolling programme for assets that are carried at current value.

	Council Dwellings	Other Land and Buildings	Land Awaiting Development	Surplus Assets	Investment Properties	Total
	£000	£000	£000	£000	£000	£000
Valued at fair value as at:						
2010/11	745,470	255,890	3,340	10,971	168,827	1,184,498
2009/10	-	115,726	7,460	2,632	-	125,818
2008/09	-	101,162	15	754	-	101,931
2007/08	-	44,889	1,032	693	-	46,614
2006/07	-	5,164	-	226	-	5,390
Total Cost or Valuation	745,470	522,831	11,847	15,276	168,827	1,464,251

11. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

2009/10 £000		2010/11 £000
(7,503)	Rental income from investment property	(10,378)
1,976	Direct operating expenses arising from investment property	5,680
(5,527)	**Net Expenditure**	**(4,698)**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

2009/10 £000		2010/11 £000
106,180	Balance at start of the year	174,481
	Additions:	
21,912	Purchases	-
15,666	Construction	-
577	Subsequent expenditure	4,213
30,146	Net (gains)/losses from fair value adjustments	(9,867)
174,481	**Balance at end of the year**	**168,827**

12. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets relate to purchased licenses. The cost of software licences is written-off over the five-year life of the licences.

The software licences are held for various systems within the Council, such as e-mail, teamware and archiving, contact centre and mainframe migration.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £1,064k charged to revenue in 2010/11 was charged to the following lines in the Comprehensive Income & Expenditure Account: Local Authority Housing (HRA) £21k; Cultural, Environmental, Regulatory & Planning Services £47k; Adult Social Care £84k; Education & Childrens Services £130k and Central Services £782k.

The movement on Intangible Asset balances during the year is as follows:

	2009/10 Purchased Licences £000	2010/11 Purchased Licences £000
Balance at start of year:		
Gross carrying amounts	6,683	8,915
Accumulated amortisation	(5,402)	(6,503)
Net carrying amount at start of year	1,281	2,412
Additions:		
Purchases	2,232	977
Amortisation for the period	(1,101)	(1,064)
	2,412	2,325
Net carrying amount at end of year		
Comprising:		
Gross carrying amounts	8,915	9,892
Accumulated amortisation	(6,503)	(7,567)
Total	**2,412**	**2,325**

13. Financial Instruments

The following categories of financial instrument are carried in the balance sheet:

	01 Apr 2009 £000	31 Mar 2010 £000	31 Mar 2011 £000
Long term investments:			
Loans and receivables	29,817	20,873	-
Available-for-sale financial assets	1,409	743	743
Unquoted equity investment at cost	154	154	154
Total long term investments	**31,380**	**21,770**	**897**
Short term investments:			
Bank deposits	215,408	33,989	92,334
Nexus investments	24,500	28,000	28,000
Total short term investments	**239,908**	**61,989**	**120,334**

Available-for-sale financial assets represent the Council's investment in Newcastle Airport Local Holding Company Ltd. The unquoted equity investments are LIFTCo £147k and Eldon Square Company Ltd £7k.

Long term debtors:	01 Apr 2009 £000	31 Mar 2010 £000	31 Mar 2011 £000
Council house mortgages	68	63	178
Car loans (principal outstanding)	212	157	121
Airport loan notes	1,282	854	428
Loans to other local authorities - North Tyneside Council (transferred debt)	3,808	3,655	3,509
Leazes Homes	-	-	4,914
Other	885	795	1,047
Total long term debtors	**6,255**	**5,524**	**10,197**

Borrowings:	01 Apr 2009 £000	31 Mar 2010 £000	31 Mar 2011 £000
Short term borrowing	(143,991)	(49,095)	(238,221)
Financial liabilities at amortised cost - long term borrowing	(745,671)	(719,123)	(724,427)
Total borrowings	**(889,662)**	**(768,218)**	**(962,648)**

Other Long Term Liabilities:	01 Apr 2009 £000	31 Mar 2010 £000	31 Mar 2011 £000
Long term creditors - PFI finance lease liabilities	(178,440)	(174,266)	(170,081)
Deferred liabilities	(380)	(380)	-
Other long term liabilities - pensions liability	(513,420)	(532,550)	(349,400)
Total other long term liabilities	**(692,240)**	**(707,196)**	**(519,481)**

Income, Expense, Gains and Losses

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- PWLB (Public Works Loan Board) interest rates for new fixed rate borrowing in the appropriate maturity bands as at 31 March 2011.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Financial Liabilities

	31 March 2010		31 March 2011	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial liabilities	(768,218)	(839,495)	(962,271)	(1,051,878)
Long-term creditors	(174,266)	(174,266)	(170,081)	(170,081)
	(942,484)	**(1,013,761)**	**(1,132,352)**	**(1,221,959)**

Financial Assets

	31 March 2010		31 March 2011	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Loans and receivables	(21,770)	(21,770)	(897)	(897)
Long-term debtors	(5,524)	(5,524)	(10,197)	(10,197)
	(27,294)	**(27,294)**	**(11,094)**	**(11,094)**

The fair value differs from the carrying value as fair value is assessed according to market rates relating to the outstanding life of the loan. Carrying amount relates to the actual interest rate applicable to the loan outstanding. The fair value differences for financial instruments relates to the fact that the Council has loans at fixed rates that result in it paying a higher interest charge than if it had taken out variable rate loans.

The fair value of the PFI's (Private Finance Initiative) is taken to be the same as the carrying value as the interest rate applied is driven from the overall calculation of the unitary charge in the operators' models. This calculation takes into account wider factors applying to the contract, therefore it is not considered appropriate to apply an interest rate from a simple loan over a comparable contract term.

14. Inventories

	Adult & Cultural Services		Chief Executives		Environment & Regeneration		Total	
	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000
Balance at start of year	56	368	69	83	1,326	907	1,452	1,359
Purchases	39	40	108	93	2,902	3,344	147	133
Recognised as an expense in the year	274	(27)	(94)	(125)	(3,322)	(3,089)	180	(152)
Written off balances	-	-	-	-	-	(2)	-	-
Total In Year Movement	313	13	14	(31)	(419)	253	(92)	234
Balance at year-end	369	381	83	52	907	1,160	1,360	1,593

The information below gives the split of the 2009/10 & 2010/11 opening balances by category of stock.

	Adult & Cultural Services		Chief Executives		Environment & Regeneration		Total	
	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000
Consumables	56	368	69	83	646	293	772	744
Building Materials	-	-	-	-	680	615	680	615
Balance at start of year	56	368	69	83	1,326	907	1,452	1,359

15. Short - Term Debtors

01 Apr 2009 £000	31 Mar 2010 £000		31 Mar 2011 £000
21,926	25,132	Central government bodies	25,231
10,210	11,071	Other local authorities	7,248
3,520	4,362	NHS bodies, public corporations and trading funds	3,708
10,512	11,519	Council Tax	11,801
1,899	1,379	Housing Tenants	933
556	1,645	Private finance initiative lifecycle prepayments	3,787
30,477	37,429	Other entities and individuals	33,895
79,100	**92,537**	**Total**	**86,604**

16. Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

01 Apr 2009 £000	31 Mar 2010 £000		31 Mar 2011 £000
2,803	3,907	Cash held by the Council	4,776
10,700	10,340	Short-term deposits with building societies	43,518
13,503	14,247		48,294
(11,114)	(11,572)	Bank overdraft	(6,614)
(29,408)	(27,473)	Monies held on behalf of other organisations	(50,757)
(40,522)	(39,045)		(57,371)
(27,019)	**(24,798)**	**Total Cash and Cash Equivalents**	**(9,077)**

Monies held on behalf of other organisations represents cash held and invested under treasury management agreements on behalf of partner organisations where the Council is the lead authority which must be returned on request. This includes Theatre Royal (£3.53m), Tyne & Wear Integrated Transport Authority (£45.83m) and Your Homes Newcastle (£3.22m), Archives & Museums £1.50m.

17. Assets Held for Sale

2009/10 £000		2010/11 £000
2,778	**Balance at start of year**	**1,335**
	Assets newly classified as held for sale:	
201	Property, Plant and Equipment	261
-	Revaluation losses	(4)
-	Revaluation gains	145
	Assets declassified as held for sale:	
-	Property, Plant and Equipment	(891)
(1,644)	Assets sold	(345)
1,335	**Balance at year-end**	**501**

18. Short - Term Creditors

01 Apr 2009 £000	31 Mar 2010 £000		31 Mar 2011 £000
(20,743)	(17,219)	Central government bodies	(8,987)
(10,064)	(6,074)	Other local authorities	(9,574)
(623)	(33)	NHS bodies, public corporations and trading funds	(661)
(1,293)	(1,230)	Council tax	(1,395)
(8,303)	(4,389)	Private finance initiative lease creditor	(4,184)
(4,797)	(6,450)	Accumulated absences	(6,295)
(96,326)	(158,764)	Other entities and individuals	(92,274)
(142,149)	**(194,159)**	**Total**	**(123,370)**

19. Provisions

	Insurance £000	Equal Pay £000	Other Provisions £000	Total £000
Balance at 1 April 2010	**(8,028)**	**(1,713)**	**(2,517)**	**(12,258)**
Additional provisions made in 2010/11	(126)	-	(163)	(289)
Amounts used in 2010/11	-	-	-	-
Unused amounts reversed in 2010/11	-	-	1,725	1,725
Balance at 31 March 2011	**(8,154)**	**(1,713)**	**(955)**	**(10,822)**

Insurances

From 1991 the City Council has self-funded the first £100,000 of each and every public and employer's liability claim subject to aggregate protection. In 2003 this liability deductible increased to £250,000. Since April 1994 the Council has self-insured the first £100,000 of fire damage claims for the Childrens Services Directorate and the first £5,000 of all other fire damage claims (except Housing). Motor vehicle own damage is self-funded and there is an excess of £25,000 in respect of third party claims.

The insurance provision of £8.2m at 31 March 2011 (31 March 2010 £8.0m) covers, in the main, the Council's liabilities in respect of outstanding claims already reported.

Equal Pay

This provision is to cover potential income tax and national insurance liability for the settled equal pay claims.

Other Provisions

All other provisions are individually insignificant.

20. Usable Reserves

Movements in the Council’s usable reserves are detailed in the Movement in Reserves Statement and Note 6.

21. Unusable Reserves

01 Apr 2009 £000	31 Mar 2010 £000		31 Mar 2011 £000
(161,485)	(230,820)	Revaluation Reserve	(207,439)
(1,409)	(743)	Available for Sale Financial Instruments Reserve	(743)
(920,789)	(855,105)	Capital Adjustment Account	(453,286)
8,303	7,922	Financial Instruments Adjustment Account	7,656
513,420	532,550	Pensions Reserve	349,400
(1,778)	(1,346)	Deferred Capital Receipts Reserve	(914)
1,299	1,065	Collection Fund Adjustment Account	1,097
4,797	6,450	Accumulated Absences Account	6,295
(557,642)	**(540,027)**	**Total Unusable Reserves**	**(297,934)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost.
- Used in the provision of services and the gains are consumed through depreciation.
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2009/10 £000		2010/11 £000
(161,485)	**Balance at 1 April**	**(230,820)**
(67,012)	Upward revaluation of assets	(29,100)
(6,141)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	49,700
(73,153)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	20,600
1,047	Difference between fair value depreciation and historical cost depreciation	1,951
2,771	Accumulated gains on assets sold or scrapped	830
3,818	Amount written off to the Capital Adjustment Account	2,781
(230,820)	**Balance at 31 March**	**(207,439)**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are either revalued downwards or impaired and the gains are lost; or disposed of and the gains are realised. The reserve represents the long term investment in Newcastle Airport Local Authority Holding Company Limited.

2009/10 £000		2010/11 £000
(1,409)	Balance at 1 April	(743)
666	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	-
(743)	**Balance at 31 March**	**(743)**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 5 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

2009/10 £000		2010/11 £000
(920,789)	**Balance at 1 April**	**(855,105)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
194,375	Charges for depreciation and impairment of non current	457,668
(5,100)	Revaluation losses on Property, Plant and Equipment	(2,689)
1,101	Amortisation of intangible assets	1,064
25,909	Revenue expenditure funded from capital under statute	35,554
(3)	External debt redeemed	(3)
870	Write down of long term debtors	30
13,567	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	25,765
230,719		517,389
(2,771)	Adjusting amounts written out of the Revaluation Reserve	(830)
227,948	Net written out amount of the cost of non current assets consumed in the year	516,559
	Capital financing applied in the year:	
(11,171)	Use of the Capital Receipts Reserve to finance new capital expenditure	(2,488)
(17,850)	Use of the Major Repairs Reserve to finance new capital expenditure	(25,332)
(73,379)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(48,965)
(4,997)	Application of grants to capital financing from the Capital Grants Unapplied Account	(20,189)
(24,622)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(23,792)
(21,024)	Capital expenditure charged against the General Fund and HRA balances	(3,841)
(153,043)		(124,607)
(9,221)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	9,867
(855,105)	**Balance at 31 March**	**(453,286)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. It provides a balancing mechanism between the different rates at which gains and losses (e.g. premiums on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund.

2009/10 £000		2010/11 £000
8,303	**Balance at 1 April**	**7,922**
(77)	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(171)
(304)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(94)
7,922	**Balance at 31 March**	**7,656**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2009/10 £000		2010/11 £000
513,420	**Balance at 1 April**	**532,550**
5,730	Actuarial (gains) or losses on pensions assets and liabilities	(36,550)
59,980	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(102,340)
(46,580)	Employer's pensions contributions and direct payments to pensioners payable in the year	(44,260)
532,550	**Balance at 31 March**	**349,400**

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2009/10 £000		2010/11 £000
(1,778)	**Balance at 1 April**	**(1,346)**
432	Transfer to the capital Receipts Reserve upon receipt of cash	432
(1,346)	**Balance at 31 March**	**(914)**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2009/10 £000		2010/11 £000
1,299	**Balance at 1 April**	**1,065**
(234)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	32
1,065	**Balance at 31 March**	**1,097**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2009/10 £000		2010/11 £000
4,797	**Balance at 1 April**	**6,450**
1,653	Amounts accrued at the end of the current year	(155)
6,450	**Balance at 31 March**	**6,295**

22. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

2009/10 £000		2010/11 £000
11,723	Interest received	3,767
(55,842)	Interest paid	(55,959)
(44,119)		**(52,192)**

23. Cash Flow Statement - Investing Activities

2009/10 £000		2010/11 £000
222,035	Purchase of property, plant and equipment, investment property and intangible assets	141,879
3,860	Purchase of short-term and long-term investments	341,882
-	Other payments for investing activities	150
(12,358)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(4,855)
(184,410)	Proceeds from shot-term and long-term investments	(304,361)
(91,755)	Other receipts from investing activities	(61,357)
(62,628)	**Net cash flows from investing activities**	**113,338**

24. Cash Flow Statement - Financing Activities

2009/10 £000		2010/11 £000
(318,061)	Cash receipts of short and long-term borrowing	(848,060)
-	Other receipts from financing activities	(239)
8,303	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	4,389
391,705	Repayments of short and long-term borrowing	653,855
2,531	Other payments for financing activities	-
84,478	**Net cash flows from financing activities**	**(190,055)**

25. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Executive on the basis of budget reports analysed across Directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular: no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement; the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year and expenditure on some support services is budgeted for centrally and not charged to Directorates.

Directorate Income and Expenditure 2010/11

	Adult and Cultural Services £000	Chief Executives £000	Childrens Services £000	Environment and Regeneration £000	Total £000
Fees, charges & other service income	(48,054)	(54,259)	(36,382)	(112,375)	(251,070)
Government grants	(17,277)	(119,290)	(207,378)	(5,175)	(349,120)
Total Income	(65,331)	(173,549)	(243,760)	(117,550)	(600,190)
Employee expenses	43,949	52,115	186,291	95,338	377,693
Other service expenses	123,362	183,340	112,733	94,184	513,619
Support service	9,170	25,911	20,929	21,574	77,584
Total Expenditure	176,481	261,366	319,953	211,096	968,896
Net Expenditure	**111,150**	**87,817**	**76,193**	**93,546**	**368,706**

Directorate Income and Expenditure 2009/10 Comparative Figures

	Adult and Cultural Services £000	Chief Executives £000	Childrens Services £000	Environment and Regeneration £000	Total £000
Fees, charges & other service income	(50,185)	(24,490)	(18,027)	(40,443)	(133,145)
Government grants	(27,442)	(140,353)	(211,116)	(7,737)	(386,648)
Total Income	(77,627)	(164,843)	(229,143)	(48,180)	(519,793)
Employee expenses	46,008	57,611	188,541	100,452	392,612
Other service expenses	126,033	167,877	120,616	101,702	516,228
Support service recharge	16,456	26,570	24,859	23,088	90,973
Total Expenditure	188,497	252,058	334,016	225,242	999,813
Net Expenditure	**110,870**	**87,215**	**104,873**	**177,062**	**480,020**

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2010/11	Directorate Analysis £000	Services and Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Allocation of Recharges £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(251,070)	(114,671)	(4,010)	-		-	(40,169)	(409,920)
Interest and investment income	(226)	(1,201)	(60,900)	-	-	-	(2,517)	(64,844)
Income from council tax	-	-	-	-	-	-	(103,471)	(103,471)
Government grants and contributions	(349,120)	(14,831)	(5,791)	-	-	-	(205,106)	(574,848)
Total Income	(600,416)	(130,703)	(70,701)	-	-	-	(351,263)	(1,153,083)
Employee expenses	377,693	44,512	(153,521)	2,285	(1,035)	-	-	269,934
Other service expenses	513,619	27,780	3,706	-	(23,200)	-	14,198	536,103
Support Service recharges	77,584	143	-	-	(96,128)	-	-	(18,401)
Depreciation, amortisation and impairment	126,326	357,092	8,540	-	-	-	9,868	501,826
Interest payments	3	27,202	69,080	-	-	-	14,404	110,689
Precepts & levies	131	-	-	-	-	-	17,995	18,126
Payments to Housing Capital Receipts Pool	-	-	1,674	-	-	-	-	1,674
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	-	21,234	21,234
Total expenditure	1,095,356	456,729	(70,521)	2,285	(120,363)	-	77,699	1,441,185
Surplus or deficit on the provision of services	494,940	326,026	(141,222)	2,285	(120,363)	-	(273,564)	288,102

2009/10 comparative	Directorate Analysis £000	Services and Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Allocation of Recharges £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(133,145)	(112,438)	(1,035)	-	(246)	-	-	(246,864)
Interest and investment income	(409)	(1,833)	-	(37,250)	-	-	(3,577)	(43,069)
Income from council tax	-	-	-	-	-	-	(102,081)	(102,081)
Government grants and contributions	(386,648)	(18,031)	-	-	-	-	(254,720)	(659,399)
Total Income	(520,202)	(132,302)	(1,035)	(37,250)	(246)	-	(360,378)	(1,051,413)
Employee expenses	392,612	-	(8,187)	(12,409)	(846)	-	-	371,170
Other service expenses	516,228	70,162	(17,407)	-	(54,077)	-	-	514,906
Support Service recharges	90,973	142	-	-	(152,264)	-	-	(61,149)
Depreciation, amortisation and impairment	84,061	90,476	(11,487)	-	110	-	-	163,160
Interest payments	1,050	27,375	10,312	72,900	-	-	13,318	124,955
Precepts & levies	221	-	-	-	-	-	17,693	17,914
Payments to Housing Capital Receipts Pool	-	-	1,367	-	-	-	-	1,367
Gain or Loss on Disposal of Fixed			2,880					2,880
Assets	-	-	-	-	-	-	-	-
Total expenditure	1,085,145	188,155	(22,522)	60,491	(207,077)	-	31,011	1,135,203
Surplus or deficit on the provision of services	564,943	55,853	(23,557)	23,241	(207,323)	-	(329,367)	83,790

26. Trading Operations

The Council has established external trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. No unit had a deficit of greater than £1.0m in 2010/11 or 2009/10. Details of those units with a turnover of greater than £1.0m in 2009/10 or 2010/11 are as follows:

	2009/10 £000	2010/11 £000
Eldon Square		
Turnover	(6,847)	(8,193)
Expenditure	1,232	3,500
Surplus	(5,615)	(4,693)
Grainger Market		
Turnover	(1,186)	(1,349)
Expenditure	789	737
Surplus	**(397)**	**(612)**
Partnership House		
Turnover	(570)	(1,732)
Expenditure	744	1,726
(Surplus)/Deficit	**174**	**(6)**
Walker Quay		
Turnover	(1,050)	(856)
Expenditure	81	69
Surplus	**(969)**	**(787)**

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the Council's services to the public (e.g. refuse collection), whilst others are support services to the Council's services to the public (e.g. schools catering). The expenditure of these operations is allocated or recharged to headings in the Cost of Services in the Comprehensive Income & Expenditure Account. External trading undertakings that cannot be accommodated by particular services within the Service Expenditure Analysis have been included under Financing and Investment Income and Expenditure (see Note 8).

The table below sets out the external trading activities.

2009/10 (Surplus)/ Deficit £000		2010/11 Expenditure £000	Income £000	(Surplus)/ Deficit £000
(1,909)	Industrial Estates	1,575	(2,591)	(1,016)
(24,910)	Corporation Estates	4,213	(3,706)	507
(323)	Investment Properties	222	(123)	99
171	Market Undertakings	8,308	(10,576)	(2,268)
227	Building Schools for the Future - ICT	1,923	(2,128)	(205)
324	Other Trading	7,162	(5,646)	1,516
(26,420)	**Total**	**23,403**	**(24,770)**	**(1,367)**

27. Pooled Budgets

(a) The Council has a partnership agreement with Newcastle Primary Care Trust under Section 75 of the National Health Service Act 2006. The purpose of the partnership is to purchase equipment for an integrated health and social services equipment service ("the Newcastle City Loan Equipment Service") which will provide equipment to people living in Newcastle or people registered with a GP in Newcastle to support their daily living/nursing needs to enable them to live as safely and independently as possible in their one homes. Details of the contributions and expenditure in the year are set out below:

	2009/10	2010/11
Funding	**£000**	**£000**
Newcastle City Council	556	605
Newcastle Primary Care Trust	833	908
	1,389	1,514
Expenditure met from the pooled budget	1,389	1,514

(b) The Council has a partnership agreement with Newcastle Primary Care Trust under Section 31 of the Health Act 1999. The purpose of the partnership is to support the funding of package of care for children with complex needs. Details of the contributions and expenditure in the year are set out below:

	2009/10	2010/11
	£000	**£000**
Funding		
Newcastle City Council	1,477	1,290
Newcastle Primary Care Trust	100	100
	1,577	1,390
Expenditure met from the pooled budget	1,577	1,390

28. Members' Allowances

The Council paid the following amounts to Members of the Council during the year:

	2009/10	2010/11
	£000	**£000**
Allowances	934	922
Expenses	88	85
National insurance contributions payable	54	53
Total	**1,076**	**1,060**

29. Officers' Remuneration

The remuneration paid to the Council's senior employees is as follows:

		Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Compensation for Loss of Office £	Pension Contribution £	Total £
Chief Executive (Barry Rowland)*	2010/11	173,784	-	963	-	24,354	199,101
	2009/10	157,309	-	946	-	24,827	183,082
Executive Director of Environment & Regeneration	2010/11	123,882	6,194	-	-	19,771	149,847
	2009/10	123,882	9,291	-	-	17,416	150,589
Executive Director of Childrens Services (in post from August 2009)	2010/11	113,369	-	-	-	16,924	130,293
	2009/10	75,759	-	-	-	11,488	87,247
Executive Director of Adult & Cultural Services *	2010/11	125,967	-	-	-	18,971	144,938
	2009/10	112,464	-	110	-	17,095	129,669
Director of Finance & Resources*	2010/11	106,862	-	-	-	16,243	123,105
	2009/10	106,356	-	-	-	16,124	122,480
Head of Corporate Law (in post from September 2009)	2010/11	70,175	-	-	-	10,667	80,842
	2009/10	41,573	-	-	-	6,041	47,614
Acting Director of Corporate Services (April to July 2010) **	2010/11	32,598	-	-	101,277	267,042	400,917
	2009/10	73,276	-	-	-	11,138	84,414
Director of Corporate Services (from June 2010)	2010/11	82,260	-	-	-	12,299	94,559
Director of Policy Strategy & Communication	1 Apr to 12 Apr '10	2,988	-	-	-	454	3,442
	2009/10	96,089	-	-	-	14,605	110,694
Director of Policy Strategy & Communication	Jul 2010 to Mar '11	79,296	-	-	-	12,053	91,349

*The Chief Executive held the position of Acting Chief Executive up to August 2009. In 2009/10 the Director of Policy, Strategy and Communication was previously the Director Of Policy/Assistant Chief Executive, the Director of Finance & Resources was previously the City Treasurer and the Executive Director Of Adult & Culture Services was previously the Executive Director of Adult Services and the Director of Adult Services.
**The Head of Organisational Development was temporarily Acting Director of Corporate Services until the succesful candidate could take up the post, pension contributions includes £160,810 strain on the fund payment.

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration band	Officer 2009/10	Teacher 2009/10	Total 2009/10	Officer 2010/11	Teacher 2010/11	Total 2010/11
£50,000 - £54,999	43	43	86	113	45	158
£55,000 - £59,999	39	19	58	101	32	133
£60,000 - £64,999	36	22	58	31	21	52
£65,000 - £69,999	27	16	43	6	15	21
£70,000 - £74,999	24	5	29	18	10	28
£75,000 - £79,999	21	3	24	4	3	7
£80,000 - £84,999	10	2	12	7	4	11
£85,000 - £89,999	13	1	14	5	3	8
£90,000 - £94,999	4	3	7	4	1	5
£95,000 - £99,999	9	2	11	1	2	3
£100,000 - £104,999	6	1	7	-	-	-
£105,000 - £109,999	5	-	5	-	4	4
£110,000 - £114,999	5	1	6	1	-	1
£115,000 - £119,999	1	-	1	1	1	2
£120,000 - £124,999	2	1	3	-	-	-
£125,000 - £129,999	-	-	-	1	-	1
£130,000 - £134,999	2	-	2	-	-	-
£135,000 - £139,999	2	-	2	-	-	-
£150,000 - £154,999	-	-	-	-	-	-
£160,000 - £164,999	2	-	2	-	-	-
£165,000 - £169,999	-	-	-	-	-	-
£180,000 - £184,499	1	-	1	-	-	-
	252	119	371	293	141	434

Single Status payments in lieu of back pay in 2010/11 resulted in an additional 180 staff being included in the disclosure note who wouldn't otherwise have been.

30. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspection and to non-audit services provided by the Council's external auditors.

	2009/10 £000	2010/11 £000
Fees payable to the external auditors with regard to external audit services carried out by the appointed auditor for the year	398	396
Fees payable in respect of statutory inspections	17	1
Fees payable for the certification of grant claims and returns for the year	78	50
Total	**493**	**447**

31. Dedicated Schools Grant

The Council's expenditure on schools is funded by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2010/11 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
(a) Final DSG for 2010/11	12,551	129,731	142,282
(b) Brought forward from 2009/10	1,031	-	1,031
(c) Carry forward to 2011/12 agreed in advance	-	-	-
(d) Agreed budgeted distribution in 2010/11 (a+b)	13,582	129,731	143,313
(e) Actual central expenditure	16,215	-	16,215
(f) Actual ISB deployed to schools	-	129,731	129,731
(g) Local authority contribution for 2010/11	3,504	-	3,504
(h) Carry forward to 2011/12 (d-e-f)+g	**870**	**-**	**870**

DSG is shown as an income item in the Comprehensive Income & Expenditure Account for Children's & Education Services

32. Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2010/11:

	2009/10 £000	2010/11 £000
Credited to Taxation and Non Specific Grant Income		
Council tax income	(102,081)	(103,471)
National Non-Domestic Rates	(133,666)	(145,787)
Revenue Support Grant	(30,852)	(21,170)
Area Based Grant	(25,180)	(38,149)
Capital Grants		
Capital Investment grant	(1,300)	-
National Affordable Housing	-	(1,200)
Standards Fund	(45,246)	(10,910)
Arts Council	(1,511)	-
Transport supplementary grant - LTP	(1,868)	(2,647)
Department for Education - Childrens Centres	(1,247)	(1,671)
Heritage Lottery	(789)	(2,856)
Single programme	-	(2,143)
BNG Funding	(13,045)	(9,346)
Strategic Housing Investment Pot	(1,482)	(1,198)
New Deal For Communities	(3,182)	-
Homes and Communities Agency	(1,700)	-
Other Grants	(12,733)	(8,199)
Total	(375,882)	(348,746)
Credited to Services		
Dedicated Schools Grant	(137,652)	(141,747)
Mandatory Rent Rebates	(61,913)	(63,654)
Mandatory Rent Allowances	(44,341)	(49,855)
Council Tax Benefit Grant	(26,713)	(27,632)
Learning Skills Council	(23,591)	(21,912)
Standards Fund (Revenue)	(22,832)	(24,462)
Private Finance Initiative Subsidy	(20,131)	(20,432)
Housing Revenue Account Subsidy	(18,032)	(14,831)
Supporting People	(14,788)	(2,890)
Sure Start	(9,445)	(11,081)
School Standards Grant	(7,770)	(7,892)
Housing Benefit Administration	(3,362)	(3,006)
Transport Grant	(672)	(3,041)
New Deal for Communities	(2,163)	-
Housing Renewal Pathfinder	(1,991)	(1,871)
Asylum Seekers	(1,626)	(362)
Youth Justice	(1,617)	(1,507)
Local Area Agreements	(1,473)	-
Drug Intervention Programme	(1,327)	(1,220)

Plugged In Places	-	(1,121)
Parent Practitioner Grant	(598)	(1,067)
Social Care Reform Grant	(1,435)	(2,275)
Other Grants	(11,818)	(8,799)
Capital Grants		
Standards Fund -Capital	(4,392)	(4,564)
Pathfinder-Bridging Newcastle Gateshead	(3,951)	(3,425)
Department for Education -Childrens' Centres	-	(1,205)
Regional Housing Capital Pot (SHIP)	(952)	(902)
Disabled Facilities Grant	(783)	(810)
Homes & Communities Agency	-	(1,000)
Other Grants	(1,852)	(1,013)
Total	**(427,219)**	**(423,576)**

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	31 Mar 2010 £000	31 Mar 2011 £000
Grants Receipts in Advance		
Revenue Grants		
Transport Grant	(1,008)	(2,326)
Other Grants	(2,657)	(4,661)
Capital Grants		
Standards Fund	(7,225)	(10,698)
Other Grants	(5,712)	(4,548)
Homes and Communities Agency	(1,000)	-
Total	**(17,602)**	**(22,233)**

33. Related Parties

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in note 25 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2011 are shown in note 32.

Members of the Council have direct control over the Council's financial and operating policies and are required to disclose all pecuniary and non-financial interests which could conflict with those of the council. Two disclosures were made in 2010/11, however they were not material.

Officers - under the Officer's Code, officers must declare any potential contractual or financial interest in the work of the Council. There were no such declarations during the year.

Other Public Bodies (subject to common control by central government)

The Council has a pooled budget arrangement with Newcastle Primary Care Trust for the purchase of equipment for an integrated health and social services equipment service and to support the funding of packages of care for children with complex needs. Transactions and balances are detailed in note 27.

Entities Controlled or Significantly Influenced by the Council

Newcastle International Airport Ltd/ NIAL Holdings Limited - Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven Local Authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. In consideration of this transfer the Council received £5.8m worth of shares.

On 4th May 2001, the seven Local Authority (the 'LA7') shareholders of NIAL entered into a strategic partnership with Copenhagen Airports Limited for the latter to purchase a 49% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Limited, which is 51% owned by LA7. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Ltd, a company wholly owned by the seven authorities.

At the time of the acquisition of the new shares, the net worth of NIAL Holdings Limited was £134.0m and the Council's share of this valuation (17.31% of 51%) was £11.8m. The valuation of NIAL Holdings Limited is reviewed annually. A full independent valuation was carried out in May 2010 which valued the shareholding at £0.7m based upon the discounted cashflow method. There has been no significant change in external factors since the valuation that would materially affect the value of the shareholding.

The Council's shareholders received £95m in cash for the 49% shareholding in NIAL Holdings Limited and an additional £100m issued by the Company in the form of short and long-term loan notes. The latter payments are in recognition of the value built up in Newcastle International Airport Limited over previous years. £25m long-term loan notes are being paid in ten annual instalments, starting in 2005/06, of which the Council will receive £4.3m over the 10 years.

Newcastle City Council's 17.31% shareholding in Newcastle Airport Local Authority Holding Company Ltd is an effective shareholding of 8.8% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited, NIAL Holdings Ltd).

The principal activity of Newcastle International Airport Limited (registered number 04184967) is the provision of landing services for both commercial and freight operators.

There have been no trading transactions between the Council and NIAL during the year.

No dividend payments were made for the financial year ending 31 December 2010 or 31 December 2009.

A request for a copy of NIAL Group Limited accounts should be made in writing to the following address:

Head of Finance, South Tyneside Council, Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL.

34. Capital expenditure & capital financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2009/10 £000	2010/11 £000
Opening Capital Financing Requirement	1,036,029	1,142,670
Capital investment:		
Property, Plant and Equipment	185,242	148,398
Investment Properties	38,155	4,213
Intangible Assets	2,232	977
Revenue Expenditure Funded from Capital under Statute	25,909	35,554
Sources of finance:		
Capital receipts	(8,659)	(2,488)
Government grants and other contributions	(78,376)	(69,154)
Sums set aside from revenue:		
Direct revenue contributions	(41,386)	(29,172)
Minimum Revenue Provision	(16,476)	(19,552)
Closing Capital Financing Requirement	1,142,670	1,211,446
Explanation of movements in year:		
Increase in underlying need to borrowing (supported by government financial assistance)	51,755	32,091
Increase in underlying need to borrowing (unsupported by government financial assistance)	54,671	36,480
Assets acquired under Private Finance Initiative (PFI) contracts	215	205
Increase in Capital Financing Requirement	106,641	68,776

35. Leases

Authority as Lessee

Operating Leases

The Council has entered into a number of agreements to lease vehicles, plant and equipment. The Council has also entered into agreements to lease land and buildings. Operating lease payment commitments 2011/12 onwards are:

Land & Buildings	31 Mar 2010	31 Mar 2011
	£000	£000
Not later than one year	1,520	1,483
Later than one year and not later than five years	4,798	4,865
Later than five years	7,375	7,470
Total	13,693	13,818

Vehicles, Plant & Equipment	31 Mar 2010	31 Mar 2011
	£000	£000
Not later than one year	377	328
Later than one year and not later than five years	436	430
Later than five years	-	-
Total	813	758

Summary	31 Mar 2010	31 Mar 2011
	£000	£000
Not later than one year	1,897	1,812
Later than one year and not later than five years	5,234	5,295
Later than five years	7,375	7,470
Total: Land & Buildings, Vehicles, Plant & Equipment	14,506	14,576

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2009/10	2010/11
	£000	£000
Minimum lease payments	1,850	1,427

Authority as Lessor

Operating Leases

The Council acts as lessor leasing certain assets to other organisations and receiving a rental income. The future minimum lease payments in future years are:

	31 Mar 2010	31 Mar 2011
	£000	£000
Not later than one year	4,883	4,998
Later than one year and not later than five years	16,980	16,647
Later than five years	115,800	118,363
	137,662	140,008

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

36. Private Finance Initiatives and Similar Contracts

The Council operates the following PFI (Private Finance Initiative) contracts, schools PFI1, street lighting, Building Schools for the Future (PFI element), Library PFI and Customer Service Centres.

Schools PFI 1

In April 2003 the Council entered into a 25 year contract with Focus Education (Newcastle) Ltd for the provision and maintenance of six schools (1 first school, 1 primary school, 3 middle schools and 1 secondary school). The actual contract payments (unitary charge) made in 2010/11 amounted to £6.3m (2009/10 £6.3m). The estimated payment to be made in 2011/12 is £6.5m, subject to availability and performance related deductions and to contractually agreed inflation adjustments.

Street Lighting

In July 2004 the Council entered into a joint contract with North Tyneside Council and Tay Valley Lighting for the provision of street lighting services for a period of 25 years. The contract covers the replacement and maintenance of the City's street lighting columns and in 2010/11 the contract payment was £5.1m (2009/10 £6.3m). The estimated payment to be made in 2011/12 is £6.5m.

Building Schools for the Future - PFI element

On 5 July 2007 the Council entered into a long term strategic partnership arrangement with Aura Newcastle Limited, the Local Education Partner (LEP), in which it is a shareholder to procure the rebuilding or refurbishment of a number of schools. On the same date the Council entered into a PFI contract with Aura (Newcastle) Project Company Limited, a subsidiary of Aura Newcastle Limited, for the first phase of this programme to build 7 new schools and refurbish one. All of the phase 1 new build schools became operational between May 2008 and February 2009. Phase 1 PFI contract payments made in 2010/11 were £12.1m (2009/10 £11.6m) and estimated payments for 2011/12 are £12.4m. On 27 November 2009 the City Council entered into an additional PFI contract with Aura (Newcastle) Project Company Limited to procure a second phase comprising 4 new build schools and 4 refurbished schools. The four PFI schools (Sir Charles Parsons, St Marys, Gosforth Junior High and Walker Technology College) are all due to open in 2011/12 with a PFI contract length of 25 years. The estimated unitary charge payment in 2011/12 is £6.4m.

Library PFI

The Council has entered into a 25 year contract with Kajima Ltd for the City Library and the library at High Heaton. The contract payments made in 2010/11 amounted to £3.3m (2009/10 £3.3m) and the estimated payments for 2011/12 are £3.4m.

LIFT/ Customer Service Centres

The Council has entered into a 25 year contract with NNT LIFT Company Limited for the provision of customer service centres and office accommodation. Five centres are operational at Walker, Kenton, Gosforth, Benwell and Byker. In 2010/11 contract payments were £1.3m (2009/10 £1.3m) and the estimated payment for 2011/12 is £1.4m.

For all of the above PFI schemes the contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. In all cases the contractor took on the obligation to construct the asset and maintain them in a minimum acceptable condition and to procure the plant and equipment needed to operate the asset. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the Council for nil consideration. The exception is the Customer Service Centres where the Council can either choose to walk away from the contract or continue with the contract at a reduced rate. The Council only has rights to terminate the above contracts if it compensates the contractor in full for costs incurred and future profits that would have been generated over the remaining term of the contract.

Property, Plant & Equipment

The assets used to provide services are recognised in the Council's balance sheet. Movements in their value over the year are detailed in the analysis of the movements in Property, Plant and Equipment balance in note 10.

Payments

The Council makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contracts at 31 March 2011 (excluding any estimation of inflation and availability/performance deductions are as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2011/12	8,419	4,688	14,008	27,115
Payable within 2 to 5 years	36,079	22,140	53,813	112,032
Payable within 6 to 10 years	52,930	35,636	60,540	149,106
Payable within 11 to 15 years	55,733	45,789	48,814	150,336
Payable within 16 to 20 years	50,573	45,645	25,256	121,474
Payable within 21 to 25 years	26,199	31,992	7,403	65,594
Total	**229,933**	**185,890**	**209,834**	**625,657**

This table sets out the future unitary charge payments expected to be paid in relation to the operational PFI schemes. The expected payments, which exclude inflation and pass through costs such as electricity, are split into their constituent parts based on the Operator's financial models, which predict the future charges on the scheme. It should be noted that the total repayment of the liability is higher than the level of PFI-related liability reflected in the Balance Sheet as at 31 March 2011. This is because the Street Lighting capital investment phase is not due for completion until 2030.

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

	2009/10 £000	2010/11 £000
Balance outstanding at start of year	**(186,743)**	**(178,655)**
Payments during the year	8,303	4,389
Capital expenditure incurred in the year	(215)	(204)
Balance outstanding at year-end	**(178,655)**	**(174,470)**

37. Impairment Losses

During 2010/11, the Council has recognised a total impairment loss of £411m in the accounts. An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. Examples of events or circumstances that indicate an impairment may have incurred include: a significant decline in an asset's carrying amount during the period; evidence of obsolescence or physical damage of an asset. The majority of the impairment charge relates to the HRA (Housing Revenue Account) £335m with the remaining £76m relating to the General Fund. The amount charged to the HRA relates to dwellings and is charged against the local authority (HRA) line in the Comprehensive Income & Expenditure Statement. The General Fund charge mainly relates to the schools estate. The Council is not required to raise Council Tax to cover impairment losses and the amounts are reversed out of the accounts in the Movement in Reserves Statement.

38. Termination Benefits

The Council terminated the contracts of 106 employees in 2010/11 (384 in 2009/10), incurring liabilities of £1,975,745 including £715,757 strain on the fund payments (£24,901,815 in 2009/10 which included £11,868,001 strain on the fund). Of this total, £101,716 is payable to the Director of Corporate Services, in the form of compensation for loss of office and enhanced pension benefits of £160,816, as disclosed in Note 29. The remaining is payable to employees who were made redundant as part of the Council’s rationalisation of services.

Strain on the Fund payments are charged to the Comprehensive Income & Expenditure statement over three years

39. Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers’ Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members’ pensionable salaries.

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers’ contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2010/11, the Council paid £11,882k to Teachers’ Pensions in respect of teachers’ retirement benefits, representing 15.2% of pensionable pay. The figures for 2009/10 were £11,640k and 14.2%. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers’ scheme. These costs are accounted for on a defined benefit basis and detailed in Note 40.

40. Defined Benefit Pension Schemes

Participation in the Pension Scheme

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post employment schemes:

The Tyne & Wear Pension Fund, administered locally by South Tyneside Council - this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Arrangements for the award of discretionary post retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme 2009/10 £000	Local Government Pension Scheme 2010/11 £000	Discretionary Benefits Arrangements 2009/10 £000	Discretionary Benefits Arrangements 2010/11 £000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	23,820	27,590	-	-
Past service costs	10,350	(130,120)	-	(7,990)
Financing and Investment Income and Expenditure:				
Interest cost	67,740	64,770	5,160	4,310
Expected return on scheme assets	(37,250)	(60,900)	-	-
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**64,660**	**(98,660)**	**5,160**	**(3,680)**
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:				
Actuarial (gains) and losses	186,590	(12,310)	7,060	730
Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement	**251,250**	**(110,970)**	**12,220**	**(2,950)**
Movement in Reserves Statement:				
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(251,250)	110,970	(12,220)	2,950
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers' contributions payable to scheme	10,640	10,620	-	-
Retirement benefits payable to pensioners	-	-	(5,570)	(6,210)

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded liabilities: Local Government Pension Scheme		Unfunded liabilities: Discretionary Benefits	
	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000
Opening balance at 1 April	1,029,940	1,276,990	80,860	87,510
Current service cost	23,820	27,590	-	
Interest cost	67,740	64,770	5,160	4,310
Contributions by participants	10,620	10,640	-	-
Actuarial (gains) and losses	186,590	(12,310)	7,060	730
Net benefits paid out	(52,070)	(36,760)	(5,570)	(6,210)
Past service costs	10,350	(130,120)	-	(7,990)
Closing balance at 31 March	**1,276,990**	**1,200,800**	**87,510**	**78,350**

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2009/10 £000	2010/11 £000
Opening balance at 1 April	607,220	831,950
Expected return on assets	37,250	60,900
Actuarial gains and (losses) on assets	187,920	24,970
Employer contributions	41,010	38,050
Contributions by scheme participants	10,620	10,640
Net benefits paid out	(52,070)	(36,760)
Closing balance at 31 March	**831,950**	**929,750**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Scheme History

	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Present value of liabilities:					
Local Government Pension Scheme	(1,060,270)	(942,630)	(1,039,780)	(1,276,990)	(1,200,800)
Discretionary benefits	(85,180)	(78,630)	(80,860)	(87,510)	(78,350)
Fair value of assets in the Local Government Pension Scheme	**759,940**	**727,950**	**607,220**	**831,950**	**929,750**
Surplus/(deficit) in the scheme:	**(385,510)**	**(293,310)**	**(513,420)**	**(532,550)**	**(349,400)**
Local Government Pension Scheme	(300,330)	(214,680)	(432,560)	(445,040)	(271,050)
Discretionary benefits	(85,180)	(78,630)	(80,860)	(87,510)	(78,350)
Total	**(385,510)**	**(293,310)**	**(513,420)**	**(532,550)**	**(349,400)**

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £1.3bn has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £349.4m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2012 is £38.5m. In addition Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2012 are £6.4m.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon Hewitt, an independent firm of actuaries, estimates for the pension fund being based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme 2009/10	Local Government Pension Scheme 2010/11	Discretionary Benefits 2009/10	Discretionary Benefits 2010/11
Long-term expected rate of return on assets in the scheme:				
Equity investments	8.0%	8.4%	n/a	n/a
Property	8.5%	7.9%	n/a	n/a
Government bonds	4.5%	4.4%	n/a	n/a
Corporate bonds	5.5%	5.1%	n/a	n/a
Cash	0.7%	1.5%	n/a	n/a
Other	8.0%	8.4%	n/a	n/a
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	20.0	21.5	20.0	21.5
Women	22.9	23.7	22.9	23.7
Rate for discounting scheme liabilities	5.5%	5.4%	5.5%	5.5%
Rate of inflation - Retail Price Index	3.7%	3.5%	3.6%	n/a
Rate of inflation - Consumer Price Index	n/a	2.6%	n/a	2.5%
Rate of increase in pensions	3.7%	2.6%	3.6%	2.5%
Rate of increase to deferred pensions	3.7%	2.6%	-	-
Rate of increase in salaries	4.2%	4.0%	-	-

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2010 %	31 March 2011 %
Equity investments	67.8	68.0
Property	7.4	8.1
Government bonds	9.3	7.0
Corporate bonds	11.4	11.7
Cash	1.3	1.2
Other	2.8	4.0
Total	100.0	100.0

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

	2006/07 %	2007/08 %	2008/09 %	2009/10 %	2010/11 %
Differences between the expected and actual return on asset	n/a	n/a	(30.6)	2.7	22.6
Experience gains and losses on liabilities	n/a	n/a	1.0	0.8	1.0

41. Contingent Liabilities

At 31 March 2011, the Council had 3 contingent liabilities:

- The Council has a contingent liability in respect of grants received from Workstep for Palatine Products which are considered loans for a five year period following the grant and are repayable on cessation of business. This is currently estimated at £1m.
- Claims under the Equal Pay Act - during 2010/11 the Council settled a further 145 claims under the Act. There remain a number of cases, 1,869 to date, which have been issued under the Equal Pay Act, some of which raise different legal arguments to the cases already settled, principally claims of equal value, male claims which are contingent upon female comparators establishing their claims and claims where earlier settlements are being challenged. As the legal arguments to the residual litigation are complex and proceedings are still at an early stage it is too early to assess liability.
- The Council has a contingent liability in respect of Your Homes Newcastle pension fund guarantee. The Council has confirmed that it will assume any liabilities relating to YHN pension fund both in terms of the current funding and deficit and any ongoing funding obligations/ liabilities. The deficit on the pension fund stood at £6.4m at 31st March 2011 (31 March 2010 £18.6m), however any liability would only be payable if the admitted body did not have sufficient assets to meet the pension liabilities.

42. Nature & extent of risks arising from Financial Instruments

The Council's activities expose it to a variety of financial risks:

- Credit risk - the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments.
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and financial market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the Annual Treasury Management Strategy Statement. The statement provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Treasury Management Statement, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Treasury Management Statement also imposes a maximum sum to be invested with a financial institution located within each category. The credit criteria in respect of financial assets held by the Council are detailed fully in the Annual Treasury Management Strategy Statement.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of recoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2011 that this was likely to crystallise.

The following analysis summarises the Council's potential maximum exposure to credit risk on corporate debt, based on experience of default and uncollectibility over the last five financial years, adjusted to reflect current market conditions.

Amount at 31 March 2011	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2011	Estimated maximum exposure to default and uncollectibility at 31 March 2011	Estimated maximum expose exposure at 31 March 2010
£000	%	%	£000	£000
A	B	C	(AxC)	
13,154	4.3	4.3	566	621

No credit limits were exceeded during the reporting period.

The Council does not generally allow credit for customers, such that £5,543k of the £15,927k corporate debtors balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31 March 2010	31 March 2011
	£000	£000
Less than three months	2,453	2,561
Three to four months	51	122
Five months to one year	2,020	699
More than one year	3,148	2,161
	7,672	**5,543**

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure maturing loans may be replaced through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments. The maturity analysis of financial liabilities is as follows:

	31 March 2010	31 March 2011
	£000	£000
Between 1-2 years	18,161	48,410
Between 2-5 years	169,598	50,756
Between 5-10 years	247,624	76,546
More than 10 years	284,120	548,715
	719,503	724,427
Less than 1 year	49,095	238,221
Total long term borrowing	768,598	962,648

All trade and other payables are due to be paid in less than one year.

Market Risk

Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates - the interest expense charged to the Surplus or Deficit on the Provision of Services will rise.
- Borrowings at fixed rates - the fair value of the liabilities borrowings will fall.
- Investments at variable rates - the interest income credited to the Surplus or Deficit on the Provision of Services will rise.
- Investments at fixed rates - the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus of Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. Policy is to ensure that the level of its borrowings in variable rate loans does not expose the portfolio to excessive movements in interest rates. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2011, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on borrowings	1,426
Increase in interest receivable on investments	1,554
Impact on Surplus or Deficit on the Provision of Services	2,980

Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure).

The impact of a 1% fall in interest rates would be as above but with movements being reversed.

Price Risk

The Council does not generally invest in equity shares but does have shareholdings in LIFTCo to the value of £147k. The investment in LIFTCo represents the interest that the Council holds in the company in the form of subordinated debt. The Council has invested in LIFTCo as part of the LIFT (Local Improvement Finance Trust) procurement of Customer Service Centres.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead it only acquires shareholdings in return for 'open book' arrangements with the company concerned so that the Council can monitor factors that might cause a fall in the value of specific shareholdings. The investment in LIFTCo was taken out for policy reasons rather than as a financial investment.

The Council holds an investment in Newcastle Airport Local Authority Holding Company Ltd the shares are all classified as 'available for sale', meaning that all movements in price will impact on gains and losses recognised in Other Comprehensive Income and Expenditure. The value of the investment at 31 March 2011 was £743k.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

43. Trust Fund Accounts

The following trust funds, relating to bequests and third party funds, are held and administered by the Council. The funds do not represent assets of the Council and they are not included in the authority's balance sheet.

Trust Fund	Income	Expenditure	Net Expenditure	Assets	Liabilities
	£000	£000	£000	£000	£000
Fire Brigade Relief Fund	1	-	(1)	29	(29)
Richard Thompson Bequest	1	-	(1)	45	(45)
Sir Thomas White Bequest	4	-	(4)	188	(188)
Thomas Davison Bequest	1	-	(1)	69	(69)
Museums Service Trust Funds	2	-	(2)	110	(110)
Education Scholarship and Prize Funds	2	2	-	58	(58)
Other Trust Funds	-	-	-	18	(18)
Mansion House Holding Account	433	466	33	213	(213)
Total	**444**	**468**	**24**	**730**	**(730)**

The purpose to which the funds are applied include education scholarships and prizes, assisting new business (Richard Thompson, Sir Thomas White and Thomas Davison bequests) as well as more general charitable works.

Net expenditure on the Mansion House is funded by a fixed contribution from the City Council's General Fund and income from operating activities.

The Mansion House figures are taken from the draft accounts for 2010/11 which are still subject to audit.

44. Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

2. Accruals of Income & Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The Council has adopted a de-minimis level of £1,000 for creditors which means that they are not included in the accounting statements. Generally a full year's charge is included in the accounts for those supplies and services used continuously and charged on a periodic basis (e.g. gas, electricity and water), but the period covered by the payments does not always coincide with the financial year.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

4. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

6. Charges to Revenue for Non-Current Assets

- Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year.
- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement

equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

7. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Council are members of two separate pension schemes: the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE) and the Local Government Pensions Scheme, administered by South Tyneside Council. The funds website may be visited at www.twpf.info.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

- The Local Government Scheme is accounted for as a defined benefits scheme.
- The liabilities of the pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.4**%** based on the indicative rate of return on high quality corporate bonds.
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - Quoted securities at current bid price.
  - Unquoted securities based on professional estimate.
  - Unitised securities at current bid price.
  - Property at market value.
- The change in the net pensions liability is analysed into seven components:
  a) Current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
  b) Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  c) Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  d) Expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return.
  e) Credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  f) Gains or losses on settlements and curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future

service or accrual of benefits of employees - debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

g) Actuarial gains and losses - changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Pensions Reserve.

h) Contributions paid to the pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense. In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

8. Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

9. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/ settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets - assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the

Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council. Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices - the market price.
- Other instruments with fixed and determinable payments - discounted cash flow analysis.
- Equity shares with no quoted market prices - independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred - these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original

effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

10. Government Grants & Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments.
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

11. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is

capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired - any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

The only category of intangible assets for the Council is software licences; the asset life used for licences is 3-5 years.

12. Interests in Companies & Other Entities

The Code of Practice requires local authorities to produce group accounts to reflect significant activities provided to Council taxpayers by other organisations in which an authority has an interest. The Council has reviewed its partnership arrangements against the criteria for group accounts as set out in the Code and has concluded that there are no such material interests that require the preparation of group accounts.

13. Inventories & Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the FIFO (first in first out) costing formula and in some instances the average weighted method. Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

14. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

15. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

a) The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability.

- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

b) The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received).
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

16. Overheads & Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the Council’s status as a multifunctional, democratic organisation.
- Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

17. Property, Plant & Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction - depreciated historical cost.
- Dwellings -fair value, determined using the basis of existing use value for social housing (EUV-SH). In accordance with Government guidance on Housing Resource Accounting a sample of properties was chosen to be representative of each type of property and were valued as 'beacons'. The full valuation was obtained by extrapolating these beacon values across the whole housing stock. The beacon values are reviewed annually to reflect movements in property market values.
- All other assets -fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. To ensure that this takes place a rolling programme of valuations has been put in place by the Head of Property Services. Assets are valued in accordance with the principles of the RICS (Royal Institution of Chartered Surveyors) Appraisals and Valuation Standards. The valuations are supervised by M. Lloyd, MRICS, Head of Strategic Property & Asset Management, Strategic Property, Newcastle City Council. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line (s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

De Minimis Levels

The use of a de-minimis level for capital expenditure means that in the above categories assets below the de-minimis level are charged to the revenue account and are not classified as capital expenditure, i.e. the asset is not included in the balance sheet unless they are part of an overall project costing more than the established de-minimis level.

For all capital expenditure apart from plant, vehicles and equipment the de minimis level is £10,000. The de minimis levels established for plant, vehicles and equipment are detailed below:

- £5,000 - Environment & Regeneration plant, vehicles and equipment.
- £10,000 - all other Council owned plant, vehicles and equipment.

In the case of Sure Start capital expenditure a de minimis limit of £2,500 has been established.

All capital expenditure is included in the Asset Register.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line (s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation on all Property, Plant assets (except vehicles) has been calculated by taking the asset value at 31st March 2011 less any residual value, divided by life expectancy. Depreciation is therefore charged in the year of acquisition.

Depreciation on vehicles is based on the asset life and is calculated on a straight line basis.

Depreciation on intangible assets is also on a straight-line basis, commencing in the year of acquisition.

The life expectancy for each asset category falls within the following ranges:

Asset Category	Years
Council Dwellings	50
Buildings	25-50
Private Finance Initiative Buildings	60
Infrastructure	25-60
Plant	40
Equipment	3-25
Vehicles	3-10
Purchased software	3-5

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The Council's policy is that all assets with a carrying value greater than or equal to £5.0m will be considered for componentisation. A standard list of components is used by the Council:

- Building fabric.
- Roof.
- Mechanical and electrical.
- External.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals & Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce

the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

18. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge; the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council. The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year - debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost - an interest charge of 11.19% on schools PFI, 7.11% street lighting PFI, 5.80% Building Schools for the Future PFI, 9.27% library PFI and 3.81% to 9.66% on customer service centres PFI on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent - increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability - applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs - proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

19. Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For example, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

20. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

21. Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

22. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

23. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

24. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue & Customs. VAT receivable is excluded from income.